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## FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

# TRANSPORTATION AND INVENTORY MANAGEMENT BRIDGING THE GAP

FREIGHT BILLS AND BANKRUPTCIES • MOTOR CARRIER FINANCIAL ANALYSIS

S

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THE GUIDE

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# DIALOGUE

*Even before many of the responses to our questions concerning the proposed sale of Conrail to the Norfolk Southern were all in, we started getting calls asking for the results. Here they are, and they indicate that the proposal is generally disfavored by shippers, although not by a wide margin. The predominant reason is the fear of increased rates and poorer service. But for the many readers who disapprove of the sale, but do not expect such definable adverse results, the idea seems to prevail that any sale other than a public stock offering just isn't fair, whatever the merits of the buyer.*

"Congress should approve the sale ASAP, and let the Norfolk Southern get going on the streamline." **—Louis A. Paulson, distribution manager, Sundor Brands, Inc., Darien, Conn.**

"Congress should approve. The NS is an experienced, profitable carrier that can further enhance Conrail as a competitive force and prevent the predicted downturn of its profits." **—Edward L. Mattes, sales manager, Jaypack International Brokerage, South Plainfield, N.J.**

"The proposed sale is a great move because it would improve service to customers, provide lower transportation cost, and keep the line profitable." **—Richard L. Hyland, Indian Industries, Inc., Evansville, Ind.**

"Sell Conrail to an independent who will leave the Northeast with a competitive transportation network." **—Unsigned.**

"A public offering which would maintain competition is in the interest of coal producers and users. The NS plan will help only the NS and shippers on NS. Split Conrail between the Norfolk Southern and CSX." **—Richard D. Jones, transportation and distribution manager, Diamond Shamrock Coal Sales Co., Lexington, Ky.**

"Congress should approve the acquisition. The balance sheets speak for themselves. The Norfolk Southern Corp. knows its business and takes it seriously. A financially sound railroad will benefit all." **—Robert E. Lundberg, corporate traffic manager, Hammond Lead Products, Inc., Hammond, Ind.**

"Congress should block the proposed Norfolk Southern sale and allow the employees to purchase Conrail. They are the ones who really know what improvements and changes should be made in order to serve us better and protect their future." **—K. Austin, traffic manager, Hungerford Terry, Clayton, N.J.**

"If anyone can get Conrail to support itself, NS can." **—A. L. Goodman III, purchasing agent, Goodman Enterprises, Starkville, Miss.**

continued

## QUESTION OF THE MONTH

The trade press and industry associations have always been a source of new management ideas, and vehicles for analysts or consultants with new theories of management practices and suggestions on how to better accomplish the specific goals facing transportation decision-makers.

Lately, the popular press has begun to lend its voice to that of these traditional sources of management guidance. The book "In Search of Excellence" and its successor, "A Passion for Excellence," have challenged the management practices of most companies.

Are the challenges made by these books valid? Do the conclusions they arrive at have significance to transportation industry managements? Or do such theories miss the mark, having little practical application in the real world?

If you've read either of these books, or any others cast in the same mold, tell us what you think of their message to management. Let us know if you've incorporated any of their ideas into your management philosophy. If you haven't read them, tell us why not. Use the Dialogue card below to register your response to the new theories of management set forth in the books mentioned above.

# DIALOGUE

- I _____have _____have not read either of the two "In Search of Excellence" books.
- If you have not read either of the books, do you plan to read one or both in the future? _____Yes _____No
- I _____agree _____disagree with the basic conclusions of these books.
- I _____have _____have not changed the way I manage my job since reading this material.
- I _____agree _____disagree that most management theories are over-complicated.
- I _____do _____don't plan to spend more time supporting my customers this year.
- Most transportation companies _____are _____are not customer oriented.

What do shippers and carriers need to do differently to support their customers and innovate?

OPTIONAL

NAME (print) _____ TITLE _____

COMPANY _____ PHONE _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

## FIGURES IN SPEECH

(Quotes from transportation and distribution notables that caught the ears of *DISTRIBUTION* Editors while covering the industry meeting and seminar circuit.)

"In the last six years, railroad income only averaged $900 million annually. Does CURE (Consumers for United Rail Equity) seriously expect you to believe that a proper profit margin for the industry is zero?" **—William H. Dempsey, president, Association of American Railroads.**

•

"The export market has been particularly critical of railroad transportation rates. It's difficult to understand how anyone can blame railroads for the export market's plight, when it is very clear that the actual culprits are the mine-mouth cost of coal, the international money market, and the over-supply and lower price of oil." **—John T. Collinson, chairman, Chessie System Railroads and Seaboard System Railroad.**

•

"Local movers and warehousemen are perplexed and behind the times. They are schizophrenic, with one personality acting out the role of long-distance hauler, and the other psyche miming the characteristics of entrepeneurs and independent businessmen." **—Dr. T. Peter Ruane, president, National Moving and Storage Assn.**

"Conrail should be returned to the private sector as is. A merger with the Norfolk Southern would create another Penn Central fiasco, on a larger scale." **—T. J. Ratcliffe, traffic manager, Roadmaster Corp., Olney, Ill.**

"Whether or not the sale to NS will cause difficulties remains to be seen, and could always be debated. Our concern is over the efficiency of the DOT bidding process and the return on taxpayers' money." **—David H. Gast, supervisor of transportation, SCM Corp., Baltimore.**

"Approve the sale, but require more access and reciprocal switching. Reinstate and protect joint rates and routes." **—K. H. Ivey, traffic manager, Card T Refinery, Richmond, Va.**

"Congress should support the public offering of Conrail stock, and retain the Conrail management team. We're breaking up 'Ma Bell' and building a rail monopoly!" **—Unsigned.**

"Congress should look down the road to a possible merger of Conrail/NS and the Santa Fe if the Conrail/NS merger is approved. NS presently owns 2 percent of Santa Fe's Stock and has an NS member on the Santa Fe Board of Directors." **—Dan Antell, traffic manager, Rheem Manufacturing A/C Division, Fort Smith, Ark.**

"I favor a public offering. The present Conrail management is excellent and should be kept intact. Taxpayers deserve a change to invest in 'their' railroad. Norfolk Southern Corp. is 'stealing' this from the public at the DOT's price." **—Unsigned.**

## CONRAIL AT THE CROSSROAD

| | |
|---|---|
| Disapprove of the proposed sale to Norfolk Southern | 55% |
| Approve of the proposed sale | 45% |
| Rail service would worsen after the propposed sale | 46% |
| service would improve | 30% |
| service would remain about the same | 24% |
| Freight rates would increase after the proposed sale | 46% |
| rates would remain about the same | 33% |
| rates would decrease | 16% |
| The sale would reduce competition and carrier responsiveness | 53% |
| disagree | 45% |
| The proposed sale would lead to new service opportunities | 46% |
| disagree | 49% |
| Would consider diversion of freight to other modes if the sale is approved | 44% |

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THIRD QUARTER

# FORECAST

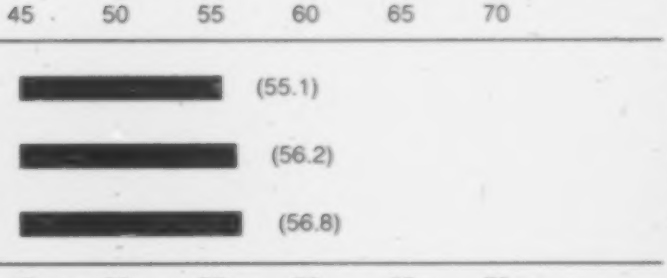
By Richard Lancioni, Ph.D. and Myron Kyj

## GENERAL ECONOMIC INDICATORS

| | 3rd QTR. FORECAST | 4th QTR. FORECAST | 1st QTR. '86 FORECAST |
|---|---|---|---|
| Real GNP (trillions) | $3.9514 | $4.0126 | $4.0673 |
| Retail Car Sales (millions of units, annual rate) | 10.9 | 10.9 | 10.9 |
| Housing Starts (1000s of units, annual rate) | 1,793.5 | 1,783.2 | 1,748.5 |
| Prime Rate (%) | 10.8 | 11.0 | 11.7 |
| Personal Income (trillions) | $3.2423 | $3.2990 | $2.2490 |
| Inflation Rate (%) | 3.6 | 3.7 | 4.0 |
| Unemployment Rate (%) | 7.2 | 7.2 | 7.3 |
| Net Exports (billions) | 85.4 | 87.7 | 88.9 |
| Factory Utilization (%) | 81.6 | 81.8 | 81.8 |

The outlook for the U.S. economy for the balance of 1985 looks mixed. After a robust first quarter, the pace of growth in the economy should slow throughout the third quarter and pick up slightly in the latter part of the year. Real GNP should reach four trillion dollars by the end of the year and the annual inflation rate should not exceed 4.0 percent. Personal income, while rising rapidly during the first part of the year, will continue to increase moderately and reach $3.2 trillion by the end of the fourth quarter. Interest rates should remain relatively constant during the year, and rise to 11.7 percent during the latter part of the year. Unemployment should also remain constant through the year. The only cloud on the horizon is the ballooning federal deficit which will reach more than 175 billion dollars by year's end.

## PURCHASING MANAGERS COMPOSITE INDEX




The composite index shows only a moderate growth in the economy through the fourth quarter of 1985 and the first quarter of 1986. Factory orders are expected to moderate as production begins to slow down. Purchasing managers still remain confident in the soundness of the economy, but some doubt still remains because of the high federal deficits and the ability of the government to finance them in the future. With interest rates expected to moderate in the third quarter, the near term looks strong for increased purchasing activity. But in the fourth quarter, the Federal Reserve must again come into the capital markets to borrow. The size of the Fed's requirements are as yet uncertain, but if they are large, interest rates could climb much higher than predicted.

THIRD QUARTER

# FORECAST

## DISTRIBUTION INDEX
### Quarterly Shipper Forecast

| | 3rd QTR. FORECAST | 4th QTR. FORECAST | 1st Qtr. '86 FORECAST |
|---|---|---|---|
| Truck Shipments | 145.7 | 144.0 | 143.2 |
| Rail Shipments | 127.3 | 126.9 | 125.4 |
| Air Shipments | 134.1 | 134.3 | 123.1 |
| Water Shipments | 118.3 | 118.1 | 117.4 |
| Warehouse Space Utilization | 136.6 | 135.1 | 133.2 |
| Inventory Valuation | 114.5 | 114.2 | 113.9 |

The distribution industry will experience only moderate growth in the 3rd and 4th quarters of 1985. Truck shipments will rise only moderately in the third quarter, and then decline somewhat to 144.0 by the end of the year. Rail shipments will moderate also to 126.9 throughout the 4th quarter. Air shipments will increase, but only slightly, to 134.3 by the 1st quarter of 1986. Pressure for inventory reduction during the last part of the year will continue, with inventory valuation expected to decline to 114.2 in the 4th quarter. This trend is also reflected in the decline in warehouse space utilization which is expected to drop to 133.2 during the first part of 1986.

## DIESEL FUEL PRICES

| | 3rd QTR. FORECAST | 4th QTR. FORECAST | 1st QTR. '85 FORECAST |
|---|---|---|---|
| Full-Serve | 131.0 | 133.0 | 133.0 |
| Self-Serve | 124.0 | 126.0 | 126.0 |

Source: American Trucking Associations

Energy prices should remain relatively constant during the 3rd and 4th quarters of 1985. Full-serve diesel prices should rise to $1.33 per gallon by the end of the year, and self-prices should increase to $12.6 per gallon. The dark side of the energy picture is the possible shortages that could occur if the major oil companies curtail refinery activities and begin to restructure their operations.

## TRANSPORTATION TONNAGE INDEXES
### (1977 = 100.0)

| | 3rd QTR. FORECAST | 4th QTR. FORECAST | 1st QTR. '85 FORECAST |
|---|---|---|---|
| Rail | 92.0 | 94.0 | 94.0 |
| Truck | 163.3 | 163.3 | 163.5 |
| Barge | (N/A) | (N/A) | (N/A) |

Source: Data Resources Inc.

Freight tonnage hauled by the major modes will rise only moderately in the third and fourth quarters of 1985. Truck shipments will rise to the 163.5 level. Rail tonnage will also increase, but only slightly, to 94.0 through the 1st quarter of 1986. While figures are not available for water tonnage, it is expected to hold constant for the balance of the year.

## TRANSPORTATION COST INDEXES
### (1977 = 100.0)

| | 3rd QTR. FORECAST | 4th QTR. FORECAST | 1st QTR. '85 FORECAST |
|---|---|---|---|
| Rail | 184.0 | 185.0 | 185.0 |
| Truck | 174.0 | 175.0 | 175.0 |
| Barge | 187.0 | 188.0 | 188.0 |

Source: Data Resources Inc.

The cost of moving freight in the remainder of 1985 will remain constant. Rail, truck, and water costs should all continue at current levels. The only impact on transportation costs will come from the possible increases in fuel oil prices in the 4th quarter of '85. In general, distribution managers can look forward to a relatively stable period in the near term in the area of transportation costs.

# SOME BIG NUMBERS GET BELITTLED

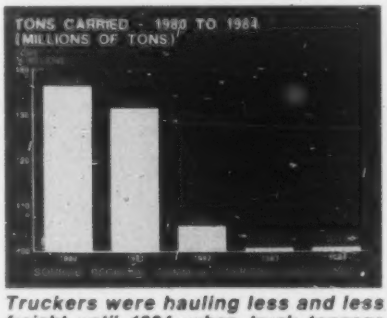
## Chronic ailments that continue to afflict trucking's lower echelon overshadow some impressive figures posted by its elite.

By Kurt Hoffman, Contributing Editor

Any reasonable discussion of motor carrier financial performance must take into account the contradictory nature of the multi-employer pension plan problem, and the impact it's having on industry pricing.

Much as the legendary Sisyphus was banished to a lifetime of futility, there now exists a group of motor carriers, estimated to number in the low hundreds, whose labor costs are so out of line, management techniques so antiquated, debt burdens so heavy, and equipment so obsolete that, short of a miracle, they don't stand a snowball's chance in hell of turning a profit in the foreseeable future. Yet onwards they trudge, week after week, month after month.

Were it not for the enormous weight of their pension plan withdrawal liability—which in most cases dwarfs their assets—many of these players would probably close their doors, cash in their chips, pay off what they could, and hope for better days in other endeavors. But as long as they must shoulder that burden, they'll continue to bow to their cash flow needs and haul what they can for what they can get. And shippers with freight that is not overly time-sensitive, valuable or fragile—freight that accounts for the bulk of these hard-luck carriers' business—will continue milking these carriers with one hand while toasting the Employee Retirement Income Security Act (ERISA) with the other.




*Truckers were hauling less and less freight until 1984, when truck tonnage started to rebound with gains in the neighborhood of five percent. This gain corresponded with growth in the GNP.*

*Where are the individual motor carrier statistics that usually appear with this annual feature? We couldn't get them from the ICC in time for publication, because the ICC hasn't been getting them from the carriers themselves. As of mid-May, the Commission still needed to hear from 40 of the industry's Top 100 carriers.*

*Until the Commission comes through, we can only offer some general, industry-wide numbers we've obtained from the Regional Common Carrier Conference of the American Trucking Assns. As soon as the ICC comes through with the individual numbers, we'll pass them on, too.*

If a legislative solution to ERISA should descend from Capitol Hill in the near future, the exit of the terminally ill could lead to significant changes in the truck transportation market. A return to cost-based pricing could provide some desperately needed stabilization to the more-marginal carriers that would remain.

Over the last few years, these carriers have had to contend with the bargain-basement and in many cases below-cost pricing offered by their terminally ill counterparts. At the same time, they've had to grapple with pricing pressures either originated bybrokers, freight forwarders, and private carriers seeking traffic balance, or generated by general industry overcapacity. Eliminating the institutional incentive that encourages the shaky carri-

continued

ers to continue to operate at a loss year after year would free the natural forces of the market and give this second tier of trucking companies a fighting chance.

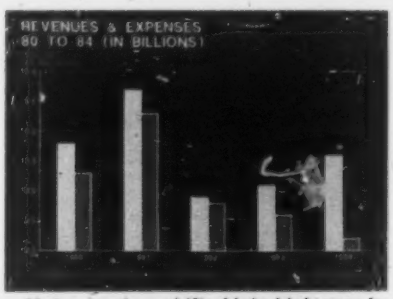
But don't hold your breath. ERISA affects many industries besides trucking. Despite several years of Congressional grappling with the issue, no light shines at the end of the tunnel. The problems are simply too complex, and the interests too diverse. And bear in mind that after having been roughed up on a number of fronts since 1981, organized labor simply won't stand for a solution that labor leaders fear will open the flood gates for a wholesale, multi-industry abandonment of pension obligations. Even a groundhog, after all, will rear up on its haunches and get quite nasty if it's cornered and threatened.

### Shippers Can Wait

The good news for shippers, then, is that for now they remain comfortably in the driver's seat. And barring a drastic acceleration in national economic activity, they will continue to call the shots throughout 1985, much to the chagrin of the trucking industry.

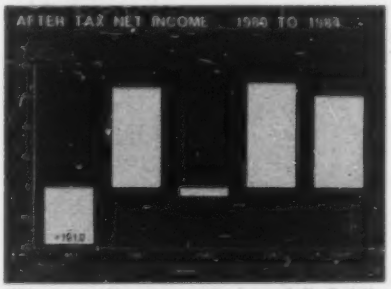
For a variety of reasons not anticipated by the deregulators during construction of the Motor Carrier Act of 1980, shippers have not had to face the classic price-service tradeoffs expected in a free market or quasi-free market transportation environment. On the contrary, shippers continue to enjoy the best of both worlds; only in rare cases marked by extenuating circumstances or extreme conditions have they really had to face those kinds of decisions.

Specific 1984 financial statistics for individual motor carriers have been nearly as elusive as industry profits. Apparently, motor carrier managers have taken to heart an ICC-proposed rulemaking to eliminate reporting requirements altogether. An ICC Bureau of Accounts official reports that as of mid-May, only about 60 percent of the Top 100 carriers had filed their respective financial reports with the agency. In previous years, carrier filings and the ICC's subsequent compilation of statistics had all been completed and released by mid-April.




*Motor carriers shifted into high gear in 1984, and pulled away with the largest profit margin since deregulation took place in 1980. The gain is attributed to brainstorming by management and sales.*

*Operating income dipped in 1984, because of a surge in costs related to permit fees, state fuel taxes and employee benefit packages. Pressure on profits also increased in other non-operating overhead areas.*




*Although after-tax net income fell slightly in 1984, carriers maintained investment in equipment and facilities. One popular option was TRAC leasing, which allowed carriers to capitalize on the lower interest rates and tax benefits.*

(*DISTRIBUTION* will provide those individual carrier statistics in a future issue, as soon as a complete set can be procured.)

### The Crunch That Never Came

The numbers that can be obtained at the present time indicate that motor carrier fortunes were a mixed bag in 1984. As a result, accurate generalizations are difficult to make. Shipper worries and carrier hopes for a capacity crunch faded as the nationwide carriers continued to expand. Yellow Freight System, for example, occasionally experienced capacity bottlenecks during the year, but fleet and network growth limited the productivity loss. This scenario was repeated in several other trucking operations.

A lot of consolidation occurred through merger and acquisition activity, as well as through bankruptcies. Dun & Bradstreet pinned industry bankruptcies at 1,401 during 1984. Trucking officials counter that an even greater number of new entrants began operations during the year.

Most major carriers—Consolidated Freightways, Roadway, Yellow Freight System, Overnite Transportation—had decent years. Others, such as Ryder/PIE Nationwide, did not.

Truckload carriers had "super years" as they enjoyed strong volumes and a shift of market share from private carriers, according to William Legg, transportation analyst with the Baltimore firm of Alex Brown & Son. The truckload carriers with company-owned equipment were in a position to capitalize on the shortage of owner-operators during 1984.

Special commodity carriers generally reflected the industries to which they were attached. Chemical haulers had a slow year; auto haulers had a good year.

Household goods carriers (see table, page 56) generally reported significant gains in tonnage, revenues and profits—good fortunes tied not only to increased relocation activity, but also to the carriers' ventures into the special products transportation business.

Surprisingly, regional carriers came in below expectations. "A major factor here was that many larger shippers continued to narrow the number of carriers they use," Legg says. "There is a common wisdom that long-haul freight and short-haul freight don't mix well, and that long-haul freight carriers are simply not competitive for short-haul freight in terms of time sensitivity.

"What showed up last year was that a number of major shippers didn't seem to care," Legg reports. "For the convenience of having

continued

only a couple of carriers, they were willing to endure slower service on short-haul lanes. That meant a lot of the short-haul carriers didn't show as much growth as might have been expected."

Trucking activity generally reflects the nation's economic trends, and 1984 was no exception. After four years of sagging profits and depressed tonnage, 1983 marked a turnaround, with significant growth of 3.7 percent and 6.5 percent, respectively, in gross national product and industrial production. Truck tonnage and motor carrier revenues correspondingly showed gains in the neighborhood of 5 percent.

Optimism reigned in the truck-

continued

## LARGE CLASS I HOUSEHOLD GOODS CARRIERS
## SELECTED EARNINGS DATA
## (000 omitted)
## Carrier and Year

| | | OPERATING REVENUES ($ millions) | NET CARRIER OPERATING INCOME ($ millions) | NET INCOME ($ millions) | REVENUE TONS HAULED (millions) | OPERATING RATIO (percent) | RETURN ON EQUITY LESS INTANGIBLE PROPERTY (percent) |
|---|---|---|---|---|---|---|---|
| Total All Carriers, | 1984 | 1,645,181 | 52,611 | 29,127 | 2,837 | 96.8 | 17.07 |
| excluding | 1983 | 1,360,775 | 34,147 | 23,428 | 2,466 | 97.5 | 16.29 |
| North American Van Lines | | | | | | | |
| Total all carriers | 1984 | 2,048,141 | 68,647 | 56,850 | 3,507 | 96.6 | 20.27 |
| | 1983 | 1,703,967 | 44,006 | 43,378 | 3,090 | 97.4 | 15.78 |
| INDIVIDUAL CARRIER DATA | | | | | | | |
| North American Van | 1984 | 402,960 | 16,036 | 27,723 | 670 | 96.0 | 25.24 |
| Lines | 1983 | 343,192 | 9,859 | 19,950 | 624 | 97.1 | 15.22 |
| Allied Van Lines | 1984 | 353,877 | 7,310 | 7,761 | 581 | 97.9 | 37.17 |
| | 1983 | 300,295 | 3,711 | 4,343 | 547 | 98.8 | 26.19 |
| United Van Lines | 1984 | 328,398 | (276) | 984 | 598 | 100.1 | 4.79 |
| | 1983 | 262,174 | 993 | 1,706 | 451 | 99.6 | 9.32 |
| Aero-Mayflower | 1984 | 261,935 | 15,273 | 9,416 | 472 | 94.2 | 33.86 |
| Transit | 1983 | 213,575 | 9,086 | 6,058 | 401 | 95.7 | 27.86 |
| Bekins Van Lines | 1984 | 203,340 | 6,471 | 4,540 | 342 | 96.8 | 17.05 |
| | 1983 | 165,813 | 4,362 | 2,717 | 319 | 97.4 | 11.43 |
| Atlas Van Lines | 1984 | 162,363 | 6,757 | 1,454 | 280 | 95.8 | 3.80 |
| | 1983 | 133,169 | 5,252 | 3,572 | 251 | 96.1 | 12.57 |
| Global Van Lines | 1984 | 80,727 | 2,673 | 1,327 | 188 | 96.7 | 13.82 |
| | 1983 | 73,589 | 1,695 | 740 | 156 | 97.7 | 7.79 |
| Burnham Van Services | 1984 | 79,799 | 11,405 | 4,857 | 110 | 85.7 | 110.79 |
| | 1983 | 55,003 | 5,551 | 2,463 | 90 | 89.9 | 55.90 |
| Wheaton Van Lines | 1984 | 43,178 | 2,949 | 2,130 | 70 | 93.2 | 17.58 |
| | 1983 | 35,666 | 2,058 | 1,512 | 63 | 94.2 | 13.84 |
| Four Winds Van Lines | 1984 | 37,732 | 66 | 106 | 47 | 99.8 | 14.87 |
| | 1983 | 30,336 | (121) | (119) | 32 | 100.4 | 0 |
| American Red Ball | 1984 | 22,985 | 249 | (269) | 68 | 98.4 | 0 |
| Transit | 1983 | 23,041 | 86 | (177) | 75 | 99.6 | 0 |
| Neptune World Wide | 1984 | 18,963 | (1263) | (2942) | 22 | 106.7 | 0 |
| Moving | 1983 | 20,296 | 711 | 35 | 28 | 96.5 | 0.80 |
| Lyon Van Lines | 1984 | 18,913 | 789 | (405) | 0 | 95.8 | 0 |
| | 1983 | 19,148 | 782 | 20 | 0 | 95.9 | 1.32 |
| Paul Arpin Van Lines | 1984 | 17,764 | 405 | 572 | 32 | 97.7 | 27.70 |
| | 1983 | 13,156 | (66) | 635 | 26 | 100.5 | 41.10 |
| National Van Lines | 1984 | 15,207 | (197) | (404) | 27 | 101.3 | 0 |
| | 1983 | 15,514 | 47 | (77) | 27 | 99.7 | 0 |

ing industry as the first two quarters of 1984 came on like gangbusters. GNP was growing during that period at annual rates of first 10.1 and then 7.1 percent, and industrial production was up nearly 14 percent from the same period a year earlier.

Carrier profits failed to keep pace, however, and hopes for what initially appeared to be the equivalent of the second coming for the trucking industry faded along with the economy in the latter half of the year. The major culprit suppressing motor carrier profits was expense growth—interest expense, state fuel tax and permit fee expense, employee benefit expense, insurance premium expense, and a host of other costs associated with operating in a highly competitive environment.

Ron Roth, director of the Statistical Analysis Department of the American Trucking Assns., reports that while motor carriers regulated by the Interstate Commerce Commission reported tonnage gains and revenue increases of 12.5 percent and 13.9 percent, respectively, in the first six months of 1984, expenses grew by 14.2 percent during that same period. The correlation continued in the second half.

Consequently, about a third of the ICC-regulated carriers studied by the ATA, as well as about a third of the 149 general freight carriers surveyed by the Association's Regular Common Carrier Conference, ended the year in the red.

According to Roth, there has also been extreme pressure on overhead costs. These are costs not related directly to transportation *per se*, but rather costs involved with positioning a trucking company to compete in a deregulated environment.

"These costs include: increasing management staff expertise; analyzing sales and marketing possibilities; developing and constantly adjusting tariffs; broadening and enhancing communications networks, freight tracing systems, rating systems, and other electronic applications; increased advertising expenses; consultation fees; and a whole spectrum of related adjustments," Roth reports. "In the broad context, these costs are nothing more than expenses which are incurred as individual carriers attempt to differentiate their prices and services from the rest of the pack. Each carrier feels it must do this or be left behind, so the result is a transition within the cost structure of the whole industry."

Yet none of these costs are directly assignable to either the physical movement of freight over a dock, or to the movement of a truck over the highway. "They are 'overhead' costs in the truest sense of the term—the costs of positioning the carrier to deal with the free market," Roth notes.

### More Bucks for Trucks

Another major cost area in 1984 was interest expense, as carriers invested heavily in equipment and facilities. This was good news for the nation's truck manufacturers—according to the Motor Vehicle Manufacturers Assn., Class 8 truck sales rose to 136,916 units, up nearly 70 percent from 1983. Similar increases were reported by trailer manufacturers.

Activity by Overnite Transportation was typical of the industry's renewed spending. Overnite, which posted operating revenue and net income increases of 22 percent and 19 percent respectively in 1984, spent $55.2 million on additions and improvements to operating property—more than double its 1983 expenditures. Tractor and trailer purchases accounted for nearly $38 million; land and buildings, $12.4 million; shop and office equipment, and software, $4.2 million.

Capital expenditures reached an all-time high at Yellow Freight System, as management spent $159 million for fleet additions and replacements, and another $26 million for hub and terminal upgrading and expansion. Carolina Freight, meanwhile, bought 350 new 28-foot pups, converted 250 45-foot vans to 500 28-foot twins, and added 75 new 48-foot trailers and 135 tractors to its fleet. And Consolidated Freightways, reporting total traffic up 22 percent, opened 44 terminals in 21 states.

Alex Brown's Legg notes that truckload carriers invested primarily in tractors, while LTL carriers continued to expand their terminal networks as well as the size of their fleets. "The compounding factor for the larger LTL carriers was the conversion from single 45-foot trailers to twin 28s," he says. "Most of the nationwide LTL carriers will move to a ratio of 70 to 80 percent of their trailer fleet in twins."

An increasingly popular option in 1984 was TRAC leasing—terminal rental adjustment clauses. Allowed under the new leasing rules, TRAC leasing will be a likely target of any tax simplification legislation on Capitol Hill. In the meantime, Legg reports, many carriers such as ABF and Viking Freight are getting these arrangements on their books.

"TRAC leases allow carriers that do not need the tax benefits from acquisition—depreciation and investment tax credits—to trade these off to the lessor for a lower interest rate and yet still attain the increase in the residual value of the equipment they are leasing," Legg explains.

Another financing mechanism thattrucking analysts expect to see greater use of is the employee stock ownership plan (ESOP) tied to wage concessions. In 1984, Transcon Lines effectively used an ESOP to generate the capital for upgrading its equipment fleet with the addition of 1,565 new trailers and 570 remanufactured units. In addition, 746 45-foot trailers were traded in, and the company converted 283 3-axle tractors to 2-axle unit. In one year, Transcon upgraded its trailer fleet from a 50 percent ratio of twin trailers to 80 percent.

Implemented late in 1983, the Transcon ESOP allowed all full-time employees to trade an irrevocable 12 percent wage/salary reduction for shares of company stock. Nearly 90 percent of Transcon's employees pursued that option in 1984. As a result, the company realized wage and salary savings of more than $15 million last year, and it expects to reduce wage and salary expenses by $80 million over a five-year period. Look for more carriers—particularly those with high labor costs—to consider the many advantages of ESOPs. ★

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